15 November 2019

TalkTalk Telecom Group PLC
Results for the half year to 30 September 2019 (H1 FY20)
Strong growth in Headline EBITDA and Fibre net adds; outlook remains unchanged

Metric	H1 FY20 IFRS 16[1]	H1 FY20 Pre-IFRS 16[1]	H1 FY19 Pre-IFRS 16[1]
Headline[2] revenue (ex-Carrier and Off-net)	£764m	£764m	£771m
Statutory revenue	£792m	£792m	£822m
Headline[2] EBITDA	£140m	£115m	£101m
Statutory operating profit	£29m	£28m	£19m
Statutory profit before taxation	£1m	£4m	(£4m)
Net Debt[3]	£1,041m	£830m	£760m
Fibre Net Adds	292k	292k	192k
On-net ARPU	£24.49	£24.49	£25.01
On-net churn	1.27%	1.27%	1.20%

Tristia Harrison, Chief Executive of TalkTalk, commented:

"We're pleased that our clear strategy to accelerate customer growth in Fibre broadband while also reducing costs has led to a significant increase in profitability in the first half, with a 14% year-on-year increase in like-for-like [4] EBITDA. We now have over two million customers taking a Fibre product, adding nearly 300,000 customers in the half.

Fibre broadband is good news for customers and TalkTalk. It offers a faster, more reliable service whilst also reducing churn and comes with a materially lower cost to serve. In addition, our soon to be completed HQ move and shift to a self-service model is underpinning our cost reductions.

Our Headline EBITDA outlook for the year remains unchanged."

Highlights

- Fibre net adds up 52% to 292k, including a record 174k in Q2 (Q2 FY19: 125k), accounting for 33% share of all new Openreach Fibre to the Cabinet (FTTC) lines in Q2 (H1 FY19: 22%)
- Headline revenue (ex-Carrier and Off-net) and On-net ARPU down 0.9% and 2.1% respectively, largely due to lower Voice usage and call boost revenue across Consumer and B2B. We also accelerated the re-contracting of our remaining higher ARPU legacy Copper customers onto a Fixed Low Price Plan (FLPP), ahead of regulatory and industry commitments on out of contract pricing, increasing our in-contract base to 72% (Q4 FY19: 68%). Headline revenue decrease was offset in part by increased Fibre penetration
- Statutory revenue contracted by 3.6% mainly due to exiting MVNO operations and declining Carrier revenue
- Headline EBITDA (pre-IFRS 16) represents 13.9% growth with increased Fibre penetration and HQ move efficiencies driving a materially lower cost base
- Statutory operating profit improvement reflects the Headline EBITDA growth
- Headline EBITDA outlook for the year (pre-IFRS 16) remains unchanged
- Increase in net debt (pre-IFRS 16) driven by working capital outflows due to a change in distribution model and accelerated Fibre growth, the cash cost of our HQ move and continued investment in FibreNation

FibreNation

- Ongoing advanced negotiations with interested parties regarding its FibreNation business

[1] IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated, with FY20 results presented both including and excluding IFRS 16 to allow users to see how the results have moved period on period. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 2 for more information.
[2] See note 2 for an explanation of APMs and non-Headline items. See note 7 for a reconciliation of Statutory information to Headline information.
[3] Total net debt includes £211m lease liability, following adoption of IFRS 16 (see note 2), of which £36m relates to finance leases (H1 FY19: £40m finance leases).
[4] Like-for-like EBITDA is referring to Headline EBITDA on a pre-IFRS 16 basis

The person responsible for arranging the release of this announcement on behalf of the Company is Tim Morris, General Counsel and Company Secretary.

There will be a webcast and conference call for analysts and investors at 9.00 am.

Webcast link: https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/16532/117258/Lobby/default.htm

Conference call details: Participants do not need a PIN for the live call – they simply need to ask to be put through to the TalkTalk results call.

Live call:	UK and International	+44 (0) 20 3003 2666
Replay (available for 7 days):	UK and International	+44 (0) 20 8196 1998
	PIN:	6647239#

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H1 FY20 financial results [1,2]

Headline revenue (excluding Carrier and Off-net) contracted by 0.9%. Ongoing Voice decline was partly offset during the period by a continued strong increase in Fibre penetration. Headline EBITDA increased to £140m. Prior to the adoption of IFRS 16 Headline EBITDA grew 13.9% to £115m (H1 FY19: £101m) reflecting the continued focus on reducing the cost base of the business. Our Statutory profit before tax of £1m (H1 FY19: £4m loss) includes non-Headline items of £14m (H1 FY19: £10m). The Board has recommended an interim dividend of 1.00p (H1 FY19: 1.00p) in line with our previously stated dividend policy.

Q2 trading – increasing momentum in Fibre base growth and penetration [1,2,5]

Q2 saw a marked acceleration in Fibre growth, with a record 174k net adds across Consumer and B2B in the quarter (previous record was 152k in Q4 FY19), taking 33% share of new Openreach FTTC lines (Q2 FY19: 22%). This was a significant step up from Q1 (118k) and was driven in part by 79% of new Consumer customers taking a Fibre product in the period (Q2 FY19: 54%), peaking at 81% in September. Equally encouraging is the volume of customers taking our higher speed services, with 23% of the Consumer Fibre base now taking our 80mbps product (Q2 FY19: 17%).

Growth in Fibre net adds was not only within the Consumer division, as our B2B arm also delivered its strongest ever quarter of Fibre net adds, with the majority of new wholesale partner customers taking a Fibre product, including an increasing mix of customers taking 80mbps speeds. The trend is mirrored in our Data business, where we added 1.1k to the Ethernet base, taking the overall base to 39.4k (Q2 FY19: 34.9k), with 37% of Ethernet orders now for our 1Gb lines (Q2 FY19: 18%), which come with materially higher ARPU and lower churn.

With Copper fast becoming a legacy product, shifting our focus to Fibre is the right thing for TalkTalk and our customers. Fibre customers benefit from faster, more reliable connectivity, whilst for us these customers are accretive to customer lifetime value (CLV) with lower churn and cost to serve, as well as higher ARPU compared to Copper customers (with the exception of some legacy Copper customers with call and TV boosts). Our focus on Fibre and our CLV approach to base management has seen a number of legacy Copper customers opt to leave TalkTalk, meaning On-net churn has risen year-on-year to 1.26% (Q2 FY19: 1.11%).

This active decision to target our remaining higher ARPU legacy Copper customers to re-contract onto FLPPs, ahead of regulatory and industry commitments on out of contract pricing, has led to some further ARPU dilution in the period. This combined with overall legacy Copper broadband base decline, and Voice usage and boost drags in both Consumer and B2B has seen Q2 Headline revenues excluding Carrier (£9m) and Off-net (£2m) fall year on year by 3.1% to £377m. Q2 On-net revenues were also down 3.1% to £310m, whilst Data was flat at £43m and Voice was down 7.7% to £24m. As a result, Q2 On-net ARPU is down 3.6% year on year to £24.29 (Q2 FY19: £25.21), with lower Voice usage and call boost take-up, combined with legacy base re-contracting being the primary driver of this.

However, as Fibre penetration continues to increase and our FLPPs continue to resonate well with Consumer customers, with 72% (Q2 FY19: 69%) of the base now in-contract, benefitting from price-certainty for the duration of their contract, we expect to see churn trend down and ARPU stabilise again in the second half and beyond.

Outlook

Headline EBITDA outlook for the year (pre-IFRS 16) remains unchanged, with increased Fibre penetration and HQ move efficiencies driving a materially lower cost base.

[1] IFRS 16 has been applied using the modified retrospective approach. Accordingly, the comparative information has not been restated, with FY20 results presented both including and excluding IFRS 16 to allow users to see how the results have moved period on period. This alternative performance measure (APM) will be presented for one year only until the comparatives also include the adoption of IFRS 16. See note 2 for more information.
[2] See note 2 for an explanation of APMs and non-Headline items. See note 7 for a reconciliation of Statutory information to Headline information.
[5] Since EFM is a legacy product, we are no longer including EFM connections in our Data KPIs, and instead will report Ethernet only.

CEO review

Overview [1,2,4]

It has now been two and a half years since we set out our strategy to be Britain's leading value provider of core fixed connectivity. As we exit the first half of the year, our strategy remains unchanged, with our focus on providing our customers the best value for money connectivity, whilst radically simplifying TalkTalk to focus on fewer priorities as a leaner, more efficient business.

Data usage continues to increase exponentially (30% YoY), driven by video streaming, online gaming and cloud storage services. Consequently, the demand for affordable and reliable fixed connectivity continues to rise, as does the consumer demand for higher speed and more resilient broadband.

These market dynamics continue to validate our strategy to focus on fixed connectivity and to specifically narrow our focus on higher bandwidth Fibre broadband, as Copper fast becomes a legacy product. Crucially, alongside this, we are continuing to right-size our cost-base, as we remain resolutely focused on addressing our central costs. This strategy has led to a significant increase in profitability in the first half, with a 14% year-on-year increase in pre-IFRS 16 Headline EBITDA to £115m.

In an uncertain economic climate where price really matters, TalkTalk remains well positioned to benefit as the only scale, value provider.

Fibre for Everyone

TalkTalk has made strong progress throughout the half in converting standard broadband customers on legacy Copper connections to Fibre-to-the Cabinet (FTTC). These customers benefit from faster, more reliable connectivity, whilst for TalkTalk these customers come with a higher lifetime value. We now have over 50% of the total Consumer and B2B base taking a Fibre product. However, as customers continue to demand even faster, more reliable services, our long-term ambition is to transition all customers to new Fibre-to-the-Premises (FTTP) networks as quickly as possible.

Supporting this ambition, we created our 'Fibre for Everyone' programme. This is a cross-Group initiative where we will consume wholesale FTTP from Openreach, in an extension of our commercial wholesale FTTC agreement, FibreNation and other alternative network operators to provide future-proof connectivity to homes and businesses across the UK. In the first half of the year, we have been building the systems and capability to provide FTTP services and we are aiming to launch Openreach FTTP before the end of the calendar year. We are also getting ready to consume Single Order Generic Ethernet Access (SOGEA) at scale in the next year.

We continue to be well placed to succeed in this space. With multiple routes to market through TalkTalk Consumer, Business and Wholesale, as well as a significant existing base, we are one of the few scale operators able to offer significant volume commitments to network builders and drive commercial advantage.

Consumer

Our single-minded focus on Fibre continues to bear fruit as more customers are demanding faster, more reliable services. We saw another meaningful shift from legacy Copper to Fibre, as we delivered 292k Fibre net adds across the Group in the first half of FY20, making significant year-on-year progress (H1 FY19: 192k). Over 50% of our total base (Consumer and B2B) is now on a Fibre product, with the Fibre base now in excess of 2 million customers.

Our propositions continue to resonate with our Consumer base, with an ever-increasing proportion of new customers signing-up to a Fibre product. As we exited the half, 81% of new Consumer customers signed up to one of our higher speed products compared to 54% at the same stage 12 months ago. Of these new Fibre customers, 42% took our faster, higher ARPU 80mbps product (H1 FY19: 22%) and lower wholesale costs from Openreach means we can continue to migrate more of our base to these faster services more economically.

Continued investment in new, digital self-service tools has led to significant improvements in the customer experience. Our 'My Service Centre' tool allows customers to identify and resolve issues online without having to speak to an agent. This tool has now been rolled out to all of our Consumer base and combined with other self-service methods (e.g. text messaging and live chat), we are seeing a reduction in call volumes, fewer complaints and increased customer satisfaction, which is leading to lower costs to serve.

During the half, we have seen a slight increase in On-net churn to 1.27% (H1 FY19: 1.20%) and some ARPU dilution as we actively targeted our remaining higher ARPU legacy Copper customers to re-contract onto FLPPs, ahead of regulatory and industry commitments on out of contract pricing. As such, our in-contract base increased to 72% (Q4 FY19: 68%). We also made a number of commitments in September to improve our customers' experience, including making it easier for new and existing customers to access the same deals from January 2020, as well as ensuring vulnerable customers are proactively moved to the best package for their needs. These pre-emptive actions leave us well positioned ahead of any further regulatory intervention on the 'loyalty penalty' paid by existing customers.

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[2] *See note 2 for an explanation of APMs and non-Headline items. See note 7 for a reconciliation of Statutory information to Headline information.*

TalkTalk Business [5]

In the same way that our Consumer customers are demanding higher speed connections, our B2B clients are consuming more data too. As such, our strategy is consistent across both divisions, with the upgrade of customers to higher speed Fibre and Data products being the primary focus for both the indirect and Direct B2B business. As in the Consumer division, the majority of new customers in our indirect partner business are now joining on Fibre products, with 56% of gross additions taking Fibre in Q2 (Q2 FY19: 43%), leading to the highest ever quarterly net adds number in both B2B and the Group.

Throughout the half year we strategically locked in a number of our key Broadband and Ethernet partners with long-term commitment deals, adding 2.1k to the Ethernet base (H1 FY19: 2.9k), taking the overall base to 39.4k (H1 FY19: 34.9k). Within the mix, we saw over a third of orders for our 1Gb service (H1 FY19: 17%), so whilst overall Ethernet base growth has slowed year-on-year, this has been countered by a higher volume of 1Gb connections, which come with significantly higher ARPU and lower churn.

Given the success of 'My Service Centre' in the Consumer business, we have started to share our proprietary data with our partners to enable them to enhance their end-customer experience. Not only does this lead to happier, more content customers, this also strengthens our relationship with key partners, as we work together to provide the best possible service to customers.

To ensure we maximise the growth potential of our Direct B2B business, we structured it as a stand-alone business division in the prior year to ensure that it receives focus from its new dedicated management team, as we grow the business and continue to improve on the quality of service we provide our Direct customers. This renewed focus, coupled with some targeted investment, has seen the Direct business prosper, delivering record Fibre net adds.

Network and connectivity

Our strategy means that fixed connectivity remains our core investment priority as we continue to scale our network to meet and exceed rising demand for bandwidth (+30% YoY). Crucially, we are doing this more efficiently by exploiting new technology and industry changes along the way. Video streaming continues to dominate peak bandwidth consumption, contributing to our recent peak usage record of over 5tbps. To help manage this demand, we have successfully continued our strategy of storing (caching) content at the network edge to minimise buffering and optimise required network expansion. We now serve 89% of Netflix content at the network edge, and this combined with our continued transition to Fibre access technologies is reflected by our strong position in the Netflix ISP performance rankings for the UK.

Given our focus on core, fixed connectivity it is essential that our foundations are strong and that we are able to adapt to the changing needs of our customers, whilst continuing to scale. As such, we will continue to incur non-Headline items in relation to our multi-year network and IT transformation programme, which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. This programme is expected to run until 2021 and underpins the wider Group strategy ensuring that it is fit for the future.

Our continued use of network data to proactively diagnose connectivity issues, inform customers and recommend the right course of action to resolve remains at the heart of our consumer connectivity strategy and the second half of the year will see this move into the in-home environment at scale, unlocking the confused and often congested in-home environment through cloud-based data analytics and clear guidance to help customers improve and enjoy the connectivity we supply to the home.

[5] *Since EFM is a legacy product, we are no longer including EFM connections in our Data KPIs, and instead will report Ethernet only.*

Cost reduction [2]

Throughout the first half of the year we have continued our relentless drive to make TalkTalk a simpler, lower cost business, and this is now starting to materially feed through into the financials. Our focus on core connectivity has seen us continue to sell our non-core products, such as mobile and TV, in a capital light way. This Fibre-focused strategy, aided by our wholesale discount agreement with Openreach, has seen a big increase in the number of customers taking Fibre, meaning that a greater proportion of the base are benefitting from higher speed and more resilient connections. As a result, we are seeing fewer faults, engineer visits and calls into the call centre. In tandem with this, the full roll-out of ‘My Service Centre’ has seen more and more customers self-serving, further reducing calls to our contact centres, meaning we have incurred significantly lower costs to serve our customers year on year.

We have made excellent progress on the move of our HQ from London to Salford and have delivered £7m savings in the first half, with a further c.£10m expected in the second half, consistent with our guidance of £16m-£20m for the full year. Roughly half the associated non-Headline cash costs have now been incurred (c.£16m), with £29m recognised to date in the income statement. A small number of roles were transitioned at the end of March 2019, with the bulk moving at the end of September 2019, and the final tranche by the end of December 2019. As such the savings are weighted more towards the second half of the financial year, with the full annualised saving of £25m-£30m materialising from FY21 onwards. We are already seeing improved collaboration and a more agile culture, and believe there are further benefits to be had, particularly as we continue to undertake a rigorous review of all external spend now that the majority of the business is located in one place.

Finally, on costs, we have transitioned to a more targeted digital approach to marketing, which has enabled us to target customers with the right CLV profile. We have moved away from price comparison websites, as well as exiting a distribution agreement with a third party, as these routes to market were effective at driving volume, but customers came with lower CLVs and a higher propensity to churn. Enhanced by a new distribution relationship, a shift to digital channels has enabled us to bring down SAC and marketing costs year on year.

People

To continue delivering for our customers, we are intent on making sure we have the right resources and skills in place to focus on our mission of being the UK’s leading value for money fixed connectivity provider. Over the last 12 months, we have been working on transition plans as we move our HQ from London to Salford. As at the end of September 2019, nearly three quarters of our workforce (74%) are based in our Soapworks site in Salford Quays, which is 10% more than at end of FY19. The move has been a great success so far and increased collaboration has led to a 34-point improvement in internal engagement scores since November 2018. The transition will be completed by January 2020, at which point the vast majority of the workforce will be situated in our North West HQ, with a small presence maintained in a satellite office in London.

Outlook [1,2]

Headline EBITDA outlook for the year (pre-IFRS 16) remains unchanged, with increased Fibre penetration and HQ move efficiencies driving a materially lower cost base.

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CFO Review

Financial information

	Headline [1,2]			Statutory [1,2]		
	Six months ended 30 September 2019 Unaudited (IFRS 16) £m	**Six months ended 30 September 2019 Unaudited (pre-IFRS 16) £m**	**Six months ended 30 September 2018 Unaudited (pre-IFRS 16) £m**	**Six months ended 30 September 2019 Unaudited (IFRS 16) £m**	**Six months ended 30 September 2019 Unaudited (pre-IFRS 16) £m**	**Six months ended 30 September 2018 Unaudited (pre-IFRS 16) £m**
Revenue	786	786	808	792	792	822
Cost of sales	(384)	(384)	(383)	(386)	(386)	(391)
Gross profit	402	402	425	406	406	431
Operating expenses	(262)	(287)	(324)	(276)	(301)	(336)
EBITDA	140	115	101	130	105	95
Depreciation and amortisation	(92)	(68)	(67)	(96)	(72)	(71)
Share of results of joint ventures	(5)	(5)	(5)	(5)	(5)	(5)
Operating profit	43	42	29	29	28	19
Net finance costs	(28)	(24)	(23)	(28)	(24)	(23)
Profit/(loss) before taxation	15	18	6	1	4	(4)
Taxation	(3)	(3)	(1)	–	–	1
Profit/(loss) for the year attributable to the owners of the Company	12	15	5	1	4	(3)
Earnings/(loss) per share						
Basic	1.0		0.4	0.1		(0.3)
Diluted	1.0		0.4	0.1		(0.3)

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Revenue summary	**Six months ended 30 September 2019 unaudited £m**	Six months ended 30 September 2018 unaudited £m
On-net	**627**	629
Corporate	**154**	172
Off-net	**5**	7
Headline revenue	**786**	808
Less Carrier	**(17)**	(30)
Less Off-net	**(5)**	(7)
Headline revenue (excluding Carrier and Off-net)	**764**	771

Throughout this CFO review, alternative performance measures (APMs) are presented as well as statutory measures and these measures are consistent with prior periods, with the exception of the pre-IFRS 16 results which in absence of restating the prior periods have been provided to aid the users of the financial statements to better understand the impact of applying the new standard. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user to better understand the financial performance, position and trends of the Group.

The group adopted IFRS 16 'Leases' in the current year and elected to adopt the standard using a modified retrospective approach, recognising the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. More details of this adjustment are provided in Note 2.

Overview
Headline revenue (excluding Carrier and Off-net) contracted by 0.9%. Ongoing Voice decline was partly offset during the period by a continued strong increase in Fibre penetration. Headline EBITDA increased to £140m. Prior to the adoption of IFRS 16 Headline EBITDA grew of 13.9% to £115m (H1 FY19: £101m) reflecting the continued focus on reducing the cost base of the business. Our Statutory profit before tax of £1m (H1 FY19: £4m loss) includes non-Headline items of £14m (H1 FY19: £10m). The Board has recommended an interim dividend of 1.00p (H1 FY19: 1.00p) in line with our previously stated dividend policy.

Group revenue
Headline revenue (excluding Carrier and Off-net) of £764m was 0.9% lower year on year with On-net revenues down 0.3% and Corporate revenues (excluding Carrier) 3.5% lower. The modest contraction in On-net revenue reflects continued Voice usage decline and lower call boost take-up in the Consumer division, as well as the active decision to target our remaining higher ARPU legacy Copper customers to re-contract onto FLPPs, ahead of regulatory and industry commitments on out of contract pricing, which has led to some ARPU dilution. This has been offset by increased penetration of Fibre. Lower Corporate revenue (excluding Carrier) was primarily due to B2B Voice, which was down 16.2% on the prior year, whilst Data revenues grew by 4.3% reflecting the continued shift in the Ethernet base to higher bandwidth products.

The Group's total Headline revenue contracted by 2.7% to £786m, primarily due to a 43.3% decline in Carrier revenue, reflecting our decision to reduce activity in the low margin business, as well as the expected continued decline in Off-net revenues. Statutory revenue declined 3.6% due to MVNO revenues which are down £8m year on year to £6m as we wind down this business.

Gross margin
Headline gross margin of 51.1% was 150bps lower year on year reflecting revenue noted above and higher costs of sales resulting from the move to Fibre products.

Statutory gross margin of 51.3% was 110bps lower year on year reflecting the reasons above as well as the improvement in gross margin of our MVNO proposition.

Operating expenses
Headline operating expenses decreased by £62m year on year, of which £25m relates to the implementation of new accounting standards (IFRS 16), whereby lease expenses are now incurred through depreciation and amortisation rather than operating expenses. The remaining £37m improvement is due to savings coming through from the move of our HQ from London to Salford, the benefit of happier customers on Fibre products leading to reduced service costs and a continued focus on right-sizing our cost base. The Group has also moved to alternative customer acquisition and marketing model with different partners, which has delivered savings year-on-year.

Statutory operating expenses were down £60m year on year as non-Headline items increased to £14m from £12m in the prior year. See further information on non-Headline items below.

Headline EBITDA
Headline EBITDA increased by 38.6% to £140m reflecting the adoption of IFRS 16 and the factors noted above. Prior to the adoption of IFRS 16, Headline EBITDA was £115m (H1 FY19: £101m), representing 13.9% like-for-like growth year-on-year.

Depreciation and amortisation
Headline depreciation and amortisation expense have increased year on year to £92m (Pre-IFRS 16: £68m, H1 FY19 £67m) largely due to the impact of adopting IFRS 16.

Share of results of joint ventures
Our share of results of joint ventures was flat year on year at £5m and consists of the Group's investment in YouView.

Net finance costs
Statutory finance costs for the period were £28m (Pre-IFRS 16: £24m, H1 FY19 £23m). The increase being mainly due to the impact of adopting IFRS 16.

Taxation
The Headline tax charge for the half was £3m, implying an effective Headline tax rate of 20% (H1 FY19: 17%).

Non-Headline items (2)

	Six months ended 30 September 2019 unaudited £m	Six months ended 30 September 2018 unaudited £m
MVNO closure	**2**	1
Network transformation	**(5)**	(7)
One Team operating model	**(7)**	-
EBITDA	**(10)**	(6)
Depreciation and amortisation	**(4)**	(4)
Taxation	**3**	2
Non-headline items	**(11)**	(8)

[2] See note 2 for an explanation of APMs and non-Headline items. See note 7 for a reconciliation of Statutory information to Headline information.

Within the Group's Statutory EBITDA there were non-Headline items of £10m (H1 FY19: £6m) associated with the moving of our head office to Salford and various transformation costs.

Following the Group's announcement in May 2017 to exit our MVNO operations, trading profits of £2m have been recognised, compared to £1m in H1 FY19.

Our significant multi-year network and IT transformation programme continued during the year incurring costs of £5m (H1 FY19: £7m) which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. As highlighted previously, this programme is expected to run until 2021 and underpins the wider Group strategy ensuring that it is fit for the future.

The Group incurred £7m (H1 FY19: £nil) in relation to reorganisation programmes associated with the movement of our head office to Salford. The Group expects the finalisation of this fundamental reorganisation within 2020.

Non-Headline depreciation and amortisation largely relate to amortisation of acquisition intangibles as well as depreciation and amortisation associated with reorganisation programmes noted above. For existing acquired customer bases, the Group expects the assets to be fully amortised by the end of FY21.

Net debt and cash flow

	Six months ended 30 September 2019 unaudited £m	Six months ended 30 September 2018 unaudited £m
Opening net debt (pre-leases) [(1)]	**(742)**	(724)
IFRS 16 / Leases opening adjustment	**(218)**	(31)
Opening net debt (post-leases)	**(960)**	(755)
Headline EBITDA [(2)]	**140**	101
Working capital	**(80)**	(14)
Capital expenditure	**(50)**	(59)
Interest and taxation	**(22)**	(21)
Non-Headline items [(2)]	**(19)**	(20)
Acquisitions	**(9)**	(6)
Dividends	**(17)**	(17)
Non-cash movement in leases	**(24)**	(9)
Closing net debt (post-leases) [(1)]	**(1,041)**	(800)

	Six months ended 30 September 2019 unaudited £m
Closing net debt (As reported)	(1,041)
Finance leases	36
Other leases	175
Closing net debt (Pre-leases)	(830)

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[2] See note 2 for an explanation of APMs and non-Headline items. See note 7 for a reconciliation of Statutory information to Headline information.

Total net debt of £1,041m after the application of IFRS 16. Before the impact of the application of IFRS 16, net debt was £830m (H1 FY19: £760m). Committed headroom at 30 September 2019 was £278m (H1 FY19: £318m).

The Group had a net working capital outflow of £80m (H1 FY19: £14m outflow) driven by the unwind of supplier payments as highlighted at the year end, payments relating to a change in third party distribution agreements and accelerated investment in Fibre.

Capital expenditure for the period was £50m (H1 FY19: £59m), representing 6.4% (H1 FY19: 7.3%) of Headline revenues. This expenditure is primarily for continued investment and enhancement of our network capability and investment in our online systems.

Non-Headline items of £19m (H1 FY19: £20m) relate to the movement of our HQ to Salford and the ongoing network transformation programme.

Acquisitions expenditure in the year of £9m (H1 FY19: £6m) has broadly remained consistent from H1 FY19 and continues to relate to the YouView joint venture and investing activity in the FibreNation business (including the acquisition of a 20% stake in the company Makehappen Group Limited).

Dividends

Dividends of £17m paid in the period (H1 FY19: £17m) comprised the final dividend for FY19 of 1.50p.

The Board is committed to improving profitability, cash generation and reducing leverage. In this context, the Board has declared an interim dividend for FY20 of 1.00p (H1 FY19: 1.00p). For FY20, the Board expects to declare a final cash dividend of 1.50p (FY19: 1.50p) taking the total cash dividend for the year to 2.50p (FY19: 2.50p). Looking beyond FY20, the Board expects to return to a more normalised dividend policy once the business has reduced leverage towards the Group's mid-term net debt/Headline EBITDA target of 2.0x.

The interim dividend for FY20 will be paid on 16 December 2019 for shareholders on the register on 29 November 2019 (ex-dividend 28 November 2019).

Funding and capital structure
The Group is financed through a combination of bank facilities, Senior Notes, receivables purchase facility, invoice discounting, retained profits and equity.

The Group continues to review its funding and capital structure with the objectives of diversifying sources and managing both the average tenor and interest cost. The average term of our debt at 30 September 2019 was two years five months.

At 30 September 2019, the Group had total committed facilities, of £1,115m (H1 FY19: £1,115m), further detail of which is given in note 10 to the Interim financial statements. At 30 September 2019, £837m (H1 FY19: £797m) had been drawn under these facilities, leaving £278m (H1 FY19: £318m) of undrawn facilities.

The Group was in compliance with the terms of all its facilities, including the financial covenants, at 30 September 2019 and throughout the year and expects to remain in compliance with the terms going forward.

Going Concern
The Directors have acknowledged the requirements of the UK Corporate Governance Code and the FRC guidance published in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' in relation to the going concern basis assessment for interim financial statements.

The Group has committed credit facilities throughout the 12 month going concern assessment period of £1,115m comprising an RCF of £640m, bond of £400m and a receivable purchase agreement of £75m. The receivable purchase agreement was extended during the period to September 2021. As at 30 September 2019, the Group's headroom was £273m.

The Group's forecasts and projections since the March 2019 financial statements have been updated to reflect the current position of relevant matters, so as to include possible downside sensitivities, expected cash flow cycles of the Group, feasible mitigating cash management/cost reduction activities and the Group's current committed and uncommitted facilities.

Whilst the Group's forecasts and projections give consideration to the expected disposal of our Fibre assets, this going concern assessment also considers the Group's expected financial position and future cash flows in a scenario where the sale did not complete during the assessment period.

The forecasts and projections consider both a 'soft' Brexit and a 'no deal' scenario. It is assessed the Group has limited direct exposure to Brexit as it only provides services within the UK, has limited non-UK suppliers and contingency plans are in place for identified risks. Whilst a no deal Brexit would likely affect business / consumer confidence and potentially drive customer churn across the wider market, the Group considers demand for our products would continue and as the largest value provider in the UK it may further enhance our relevance to customers in such a scenario.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed financial statements.

Risks and uncertainties
The Board has reconsidered the principle risks and uncertainties published at the full year 2019 and considered these to remain appropriate. The following risks and uncertainties are those that the Directors believe could have the most significant impact on the Group's business:

- Customer trust and brand reputation
- People capability
- Competitive landscape
- Changing market structure
- Regulatory compliance
- Data and cyber security
- Resilience and business continuity
- Financial liquidity and reporting developments
- Change delivery and execution

These risks and mitigating factors are described in more detail on pages 28 to 31 of the TalkTalk Telecom Group PLC Annual Report 2019, a copy of which is available on the Group's website.

The Group's risk management framework facilitates continuous and ongoing discussion of risks and associated risk appetite to ensure the appropriate focus is placed on mitigating principle risks. The Board will continue to assess the principle risks and uncertainties faced by the Group and will update the risk register and mitigation plans accordingly.

Statement of Directors responsibilities

The unaudited interim condensed financial statements for the 6 months ended 30 September 2019 have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Directive Rules ('DTR'). The interim management report herein includes a fair review of the important events during the first 6 months and description of principal risks and uncertainties for the remainder of the financial period, as required by DTR 4.2.7R, and a fair review of disclosure of related party transactions and changes therein, as required by DTR 4.2.8R.

The Directors of TalkTalk Telecom Group PLC are listed on the Group's website www.talktalkgroup.com.

On behalf of the Board

T Harrison, Chief Executive Officer
K Ferry, Chief Financial Officer
15 November 2019

Condensed consolidated income statement
For the period ended 30 September 2019

		Six months ended 30 September 2019 Unaudited			Six months ended 30 September 2018[1] Unaudited		
		Headline[2]	**Non-Headline**	**Statutory[2]**	Headline[2]	Non-Headline	Statutory[2]
	Notes	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	3	**786**	**6**	**792**	808	14	822
Cost of sales		**(384)**	**(2)**	**(386)**	(383)	(8)	(391)
Gross profit		**402**	**4**	**406**	425	6	431
Operating expenses		**(262)**	**(14)**	**(276)**	(324)	(12)	(336)
EBITDA[2]		**140**	**(10)**	**130**	101	(6)	95
Depreciation and amortisation		**(92)**	**(4)**	**(96)**	(67)	(4)	(71)
Share of results of associates and joint ventures		**(5)**	–	**(5)**	(5)	–	(5)
Operating profit		**43**	**(14)**	**29**	29	(10)	19
Net finance costs	4	**(28)**	–	**(28)**	(23)	–	(23)
Profit before taxation		**15**	**(14)**	**1**	6	(10)	(4)
Taxation	5	**(3)**	**3**	**–**	(1)	2	1
Profit for the period attributable to the owners of the Company		**12**	**(11)**	**1**	5	(8)	(3)
Earnings/(loss) per share							
Basic (p)	8			**0.1**			(0.3)
Diluted (p)	8			**0.1**			(0.3)

(1) The six months ended 30 September 2018 have not been restated for the adoption of IFRS 16 'Leases' – see note 2 for further information.

(2) See note 2 for explanation of alternative performance measures and note 7 for a reconciliation of statutory information to Headline information.

There is no other comprehensive income or expenses recognised in either period other than shown in the income statement consequently no statement of comprehensive income has been presented.

Condensed consolidated balance sheet

As at 30 September 2019

	Notes	**30 September 2019 Unaudited £m**	30 September 2018[1] Unaudited (restated)[2] £m	31 March 2019[1] Audited £m
Non-current assets				
Goodwill		**495**	495	495
Other intangible assets		**223**	242	235
Property, plant and equipment	9	**325**	223	199
Investment in joint venture and associates		**2**	5	2
Trade and other receivables		**4**	2	2
Contract costs		**348**	238	308
Deferred tax assets		**119**	90	118
		1,516	1,295	1,359
Current assets				
Inventories		**28**	32	34
Trade and other receivables		**148**	259	160
Contract assets		**43**	42	39
Cash and cash equivalents		**12**	37	67
		231	370	300
Assets classified as held for sale	11	**58**	40	47
Total assets		**1,805**	1,705	1,706
Current liabilities				
Trade and other payables		**(426)**	(519)	(491)
Contract liabilities		**(23)**	(17)	(20)
Lease liabilities	2	**(60)**	-	-
Current income tax payable		-	(8)	-
Borrowings	10	**(5)**	(85)	(10)
Provisions		**(29)**	(22)	(35)
		(543)	(651)	(556)
Liabilities classified as held for sale	11	**(7)**	(6)	(7)
Non-current liabilities				
Trade and other payables		-	(6)	(5)
Borrowings	10	**(837)**	(752)	(838)
Lease liabilities	2	**(151)**	-	-
Provisions		**(4)**	(26)	(12)
		(992)	(784)	(855)
Total liabilities		**(1,542)**	(1,441)	(1,418)
Net assets		**263**	264	288
Equity				
Share capital		**1**	1	1
Share premium		**684**	684	684
Translation reserve		**(64)**	(64)	(64)
Demerger reserve		**(513)**	(513)	(513)
Retained earnings and other reserves		**155**	156	180
Total equity		**263**	264	288

(1) The six months ended 30 September 2018 have not been restated for the adoption of IFRS 16 'Leases' – see note 2 for further information.

(2) See note 2 for further details on the restatement of comparative information.

Condensed consolidated cash flow statement

For the period ended 30 September 2019

	Notes	**Six months ended 30 September 2019 Unaudited £m**	Six months ended 30 September 2018[1] Unaudited (restated)[2] £m
Operating activities			
Operating profit		**29**	19
Share-based payments		**2**	3
Depreciation of property, plant and equipment		**58**	35
Amortisation of other operating intangible assets		**34**	32
Amortisation of acquisition intangibles		**4**	4
Share of losses of joint ventures		**5**	5
Decrease in provisions		**(5)**	(11)
Operating cash flows before movements in working capital		**127**	87
Decrease/(increase) in trade and other receivables		**7**	(15)
Increase in contract assets		**(44)**	(32)
Decrease/(increase) in inventory		**6**	(3)
(Decrease)/increase in trade and other payables		**(61)**	51
Increase/(decrease) in contract liabilities		**3**	(1)
Net cash flows generated from operating activities		**38**	87
Investing activities			
Acquisition of subsidiaries, associates and joint ventures, net of cash acquired	12	**(6)**	(6)
Investment in intangible assets		**(36)**	(39)
Investment in property, plant and equipment		**(14)**	(16)
Cash flows used in investing activities		**(56)**	(61)
Financing activities			
Settlement of Group ESOT shares		–	1
Repayments of obligations in respect of leases		**(26)**	(4)
Repayments of borrowings		–	(21)
Drawdown of borrowings		**33**	30
Interest paid		**(25)**	(21)
Other finance costs		**(2)**	–
Equity dividends paid	6	**(17)**	(17)
Cash flows generated used in financing activities		**(37)**	(32)
Net decrease in cash and cash equivalents		**(55)**	(6)
Cash and cash equivalents at the start of the period		**67**	43
Cash and cash equivalents at the end of the period		**12**	37

(1) The six months ended 30 September 2018 have not been restated for the adoption of IFRS 16 'Leases' – see note 2 for further information.

(2) See note 2 for further details on the restatement of comparative information.

Condensed consolidated statement of changes in equity

For the period ended 30 September 2019

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 1 April 2018 as previously reported		1	684	(64)	(513)	104	212
Change in accounting policies in respect of IFRS 9 and IFRS 15 (net of tax)		–	–	–	–	68	68
At 1 April 2018 (restated)		1	684	(64)	(513)	172	280
Loss for the period		–	–	–	–	(3)	(3)
Total comprehensive expense		–	–	–	–	(3)	(3)
Transactions with the owners of the Company							
Share-based payments		–	–	–	–	3	3
Settlement of Group ESOT shares		–	–	–	–	1	1
Equity dividends	6	–	–	–	–	(17)	(17)
Total transactions with the owners of the Company		–	–	–	–	(13)	(13)
At 30 September 2018 (unaudited)		1	684	(64)	(513)	156	264

	Notes	Share capital £m	Share premium £m	Translation reserve £m	Demerger reserve £m	Retained earnings and other reserves £m	Total equity £m
At 30 September 2018 (unaudited)		1	684	(64)	(513)	156	264
Profit for the period		–	–	–	–	35	35
Total comprehensive income		–	–	–	–	35	35
Transactions with the owners of the Company							
Equity dividends		–	–	–	–	(11)	(11)
Total transactions with the owners of the Company		–	–	–	–	(11)	(11)
At 31 March 2019		1	684	(64)	(513)	180	288

	Notes	**Share capital £m**	**Share premium £m**	**Translation reserve £m**	**Demerger reserve £m**	**Retained earnings and other reserves £m**	**Total equity £m**
At 31 March 2019 as previously reported		**1**	**684**	**(64)**	**(513)**	**180**	**288**
Change in accounting policies in respect of IFRS 16 (net of tax)	2	–	–	–	–	**(10)**	**(10)**
At 1 April 2019 (unaudited)		**1**	**684**	**(64)**	**(513)**	**170**	**278**
Profit for the period		–	–	–	–	**1**	**1**
Total comprehensive income		–	–	–	–	**1**	**1**
Transactions with the owners of the Company							
Share-based payments		–	–	–	–	**2**	**2**
Taxation of items directly in reserves		–	–	–	–	**(1)**	**(1)**
Equity dividends	6	–	–	–	–	**(17)**	**(17)**
Total transactions with the owners of the Company		–	–	–	–	**(16)**	**(16)**
At 30 September 2019 (unaudited)		**1**	**684**	**(64)**	**(513)**	**155**	**263**

Notes to the condensed consolidated financial statements

For the period ended 30 September 2019

1. General Information

The information for the year ended 31 March 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Basis of preparation

The annual financial statements of TalkTalk Telecom Group plc are prepared in accordance with IFRSs as adopted by the European Union.

The condensed interim financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union and Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority.

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the consolidated annual financial statements for the year ended 31 March 2019, except for the changes outlined below.

This report should be read in conjunction with the consolidated annual financial statements for the year ended 31 March 2019. Full details of the audited consolidated financial statements for the year ended 31 March 2019 are available at www.talktalkplc.com.

The preparation of these unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies were consistent with those that applied to the consolidated financial statements for the year ended 31 March 2019, except for the below and new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 (outlined in changes in accounting policies).

In applying IFRS 15 the Group is required to make certain estimates that effect the determination of the amount and timing of revenue and costs from contracts with customers. This includes an estimate of the expected average duration of customer relationships which has been determined to still be 50-120 months depending on the product and channel for the period ended 30 September 2019.

In addition, the Group continues to recognise certain service level related credits from suppliers to compensate the Group where the supplier has not operated within the contractual terms of these arrangements**.** At 30 September 2019, a receivable of £6m (September 2018: £55m, March 2019: £3m) existed in relation to claims where the supplier has not operated within contractual terms, the resolution of which may give rise to an increase or decrease in the level of receivable recognised. This is without prejudice to the Group's legal position.

As described in the 2019 annual report following the preparation of the unaudited condensed consolidated financial statements for the period 30 September 2018 management concluded and finalised the impact of the IFRS 15 for the year ended 31 March 2019. This resulted in changes to the period over which certain contract costs are amortised and additional costs being capitalised, which amounted to a £26m increase in contract assets and retained earnings on the balance sheet for 30 September 2018. In addition to this an adjustment has been made to recognise stock previously owned by a third party totalling £14m as the transaction was considered to be a financing arrangement under IFRS 15. This has resulted in a decrease of that amount to the inventory balance and retained earnings on the balance sheet for 30 September 2018 and a re-presentation of the cash outflow from operating activities to financing activities of £21m on the condensed cash flow statement. These changes have been restated in the comparative information provided in this report, further details in relation to the retrospective application of IFRS 15 can be found in the consolidated annual financial statements for the year ended 31 March 2019. The Group has also restated its comparative information in respect of assets and liabilities held for sale as described in the 2019 annual report to more appropriately classify the assets and liabilities held for sale within the Group. This has resulted in a decrease to the liabilities held for sale of £5m and an increase in trade payables of £5m.

Management has reviewed the potential impact of Brexit on these interim financial statements and continue to believe the impact will be limited, this includes any impact on the IFRS 9 expected loss model which includes consideration of the macro economic environment. See below for impact of Brexit in relation to the going concern assessment. The Board also note no changes to this assessment from a post balance sheet event perspective.

These unaudited condensed consolidated interim financial statements were authorised for issue by the Company's Board on 15 November 2019.

Going concern

The Directors have acknowledged the requirements of the UK Corporate Governance Code and the FRC guidance published in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' in relation to the going concern basis assessment for interim financial statements.

The Group has committed credit facilities throughout the 12 month going concern assessment period of £1,115m comprising an RCF of £640m, bond of £400m and a receivable purchase agreement of £75m. The receivable purchase agreement was extended during the period to September 2021. As at 30 September 2019, the Group's headroom was £273m. Net debt drawn under these facilities fluctuates throughout the year and can be higher than the amount reported at 30 September 2019.

The Group's forecasts and projections since the March 2019 financial statements have been updated to reflect the current position of relevant matters, so as to include possible downside sensitivities, expected cash flow cycles of the Group, feasible mitigating cash management/cost reduction activities and the Group's current committed and uncommitted facilities.

Whilst the Group's forecasts and projections give consideration to the expected disposal of our fibre assets, this going concern assessment also considers the Group's expected financial position and future cash flows in a scenario where the sale did not complete during the assessment period.

The forecasts and projections consider both a 'soft' Brexit and a 'no deal' scenario. It is assessed the Group has limited direct exposure to Brexit as it only provides services within the UK, has limited non-UK suppliers and contingency plans are in place for identified risks. Whilst a no deal Brexit would likely affect business / consumer confidence and potentially drive customer churn across the wider market, the Group considers demand for our products would continue and as the largest value provider in the UK it may further enhance our relevance to customers in such a scenario.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed financial statements.

Alternative performance measures (APMs)

The consolidated financial statements include APMs as well as statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, GAAP measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. The APMs have been applied consistently in the period ended 30 September 2019 as defined in the consolidated annual financial statements for the year ended 31 March 2019 except for the addition of pre-IFRS 16 values which in absence of restating the prior periods have been provided to aid the users of the financial statements to better understand the impact of applying the new standard. See note 7 for reconciliation of statutory information to headline information. This APM will be presented until the year ended 31 March 2021 when the current and prior year values will be prepared under the same basis.

Performance is measured based on headline EBITDA, defined as operating profit before non-headline items, as presented to the chief operating decision maker. EBITDA is defined as the operating profit before depreciation, amortisation, share of results of joint ventures and associates, net finance costs and taxation.

Other APMs used include:

- Headline revenue – excludes non-headline items, specifically MVNO revenue. In addition, also excludes carrier and off-net revenues;
- Headline basic EPS – basic EPS excluding non-headline items;
- Net debt – total borrowings after derivatives offset by cash and cash equivalents; and
- Pre-IFRS 16 – both headline and statutory values prepared under IAS 17 'Leases' and therefore excluding the impact of applying IFRS 16.

Changes in accounting policies

Aside from the adoption of IFRS 16, which is described below, other changes to accounting standards in the current period had no material impact. There have been no changes to accounting policies in the period and changes to estimates in the current period are outlined above.

IFRS 16

During the period, the Group has adopted IFRS 16 'Leases'. The date of the initial application of IFRS 16 for the Group is 1 April 2019.

IFRS 16 introduces new or amended requirements for lease accounting. Under IFRS 16 both lessor accounting and the Group's accounting for existing finance leases will remain unchanged unless where in the future a finance lease includes a residual guarantee which will now be measured as an expected amount payable opposed to the maximum amount payable as required under IAS 17. However, IFRS 16 introduces significant changes to accounting where the Group is a lessee and the lease was previously classified as an operating lease under IAS 17. It removes the requirements under IAS 17 to initially define a lease as either an operating lease (which are off balance sheet) or a finance lease and instead requires all leases to be recognised on the balance sheet creating a right of use asset and a lease liability (unless an exemption is taken for leases that are either short term leases or leases of low value assets).

The lease liability recognised at the inception of a lease will represent the present value of the consideration the Group will pay over the lease term with the right of use asset being set to an equivalent value plus any initial directly attributable costs. The lease liability will be discounted at the interest rate implicit in the lease or in absence of this the Group will use a calculated incremental borrowing rate based on the underlying asset. The right of use assets are depreciated over the shorter period of the lease term or the useful economic life of the underlying asset and are then tested for impairment in accordance with IAS 36 'Impairment of Assets' rather than the previous requirement under IAS 37 to recognise a provision for any onerous lease contracts.

In concluding whether a contract contains a lease, management consider whether there is an identified asset, whether the Group has the right to obtain substantially all the economic benefits of this asset, whether the Group has the right to direct how and for what purpose the asset is used, whether the Group has the right to operate the asset without the supplier having the right to change the operating instructions and whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

Following the above assessment management has concluded the below items that were formerly classed as operating leases under IAS 17, contain a lease and have therefore been recognised in accordance with IFRS 16:

- property, including offices, data centres and car parks;
- the Group's backhaul network, being backhaul circuits;
- the Group's collector ring, being collector circuits;
- elements of the Group's core network;
- all dedicated bandwidth fibres rented from third parties;
- the Group's interconnect network, being primarily ISI circuits and ducts;
- IT equipment leases, including printers; and
- motor vehicles.

Management has concluded the below arrangements do not contain a lease under IFRS 16 based upon the Group's specific network circumstances:

- the footprint the Group rents from Openreach in the unbundled exchanges and in co-location data centres, as this is not considered to be an identifiable asset that the Group has the right to direct the use of; and
- the copper and fibre lines the Group rents in the 'last mile', comprising copper between the exchange and the customer/business premise for MPF and SMPF customers and a combination of copper and fibre for our FTTC customers, as the Group does not have the ability to control or direct the use of the equipment fully.

The impact of adopting IFRS 16 has been to reduce the Group's operating expenses as lease rentals are no longer recognised straight line under operating expenses and to increase the Group's depreciation and finance costs as the Group depreciates the right of use assets and unwinds the time effect of the related lease liabilities. The overall profile of the expense recognised in the income statement has changed as a higher level of finance costs are recognised earlier in the lease term. The recognition of the lease liabilities has increased the Group's net debt however the cash position of the Group remains unchanged. The cash flows in the consolidated cash flow statement are split between a principal portion and a finance portion, which are both presented under financing activities, previously under IAS 17 the operating lease payments were presented as operating cash flows.

Details of the Group's accounting policies under IFRS 16 are listed below:

- Lease liabilities are initially measured at the present value of the future lease payments discounted using the interest rate implicit in the lease or if this cannot be readily determined using an incremental borrowing rate calculated by the Group. Lease payments include fixed lease payments less lease incentives, variable lease payments that are dependent on an index or rate measured at the index or rate at the commencement date of the lease, the amount expected to be payable at the end of lease under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise the option and payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease. The lease liabilities are subsequently measured by increasing the value to reflect the unwind of interest and reducing the value to reflect the lease payments made by the Group.

- The Group remeasures the lease liability when either the lease term changes, the lease payments change due to a change in an index or rate or where the lease is modified and the modification does not result in a separate lease. Where a lease liability is remeasured a corresponding entry is made to the right of use asset.
- The right of use assets are valued initially at an equivalent value to the lease liability with the addition of any directly attributable costs. The value of the right of use asset is increased and a provision is recognised for any costs to dismantle/remove an asset or restore the asset to a condition required under the terms of the lease when the Group incurs the obligation. The assets are subsequently measured at cost less accumulated depreciation and impairments.
- The right of use assets are depreciated over the shorter of the lease term or the useful economic life of the underlying asset. Where the Group expects to retain the asset for a period greater than the minimum non-cancellable period management estimates the period it expects it will use the assets using a portfolio approach which it will review annually. The right of use assets are presented within the same line item as that with which the corresponding underlying assets would be presented if they were owned.
- The Group has used the exemption for leases of low value assets resulting in the expense being recognised straight line in operating expenses. The Group has applied this exemption to tie cables and laptops leading to an expense of £3m being recognised in operating expenses.

Transition approach and practical expedients

IFRS 16 has been applied by the Group using the modified retrospective approach resulting in the Group not restating prior period balances and recognising a one-off cumulative debit in opening reserves on 1 April 2019 of £10m including the recognition of a £1m deferred tax asset. In applying the modified retrospective approach the Group has valued right of use assets on a lease by lease basis using either the approach that IFRS 16 had always been applied (but using the incremental borrowing rate at the date of the application which ranges from 4.2% to 6.8% dependent on the term and underlying asset) or setting the asset at an amount equal to the lease liability on transition. The Group has included initial directly attributable costs as part of the right of use assets on transition remeasuring at an equivalent amount as if it had always been unwinding over the allocated IFRS 16 lease term.

The Group has utilised the below one-off practical expedients in applying IFRS 16 for the first time:

- The Group has applied a single discount rate to portfolios of leases with reasonably similar characteristics;
- The Group has utilised hindsight in determining the lease term;
- The Group has utilised its assessments under IAS 37 to determine if leases are onerous immediately before the date of initial application and adjusted the right of use assets by the carrying amount of the onerous lease provisions at 1 April 2019 opposed to performing an impairment review under IAS 36; and
- The Group has applied on a lease by lease basis the short term lease exemption for those leases with less than twelve months remaining at the date of transition. The expenses relating to these leases amount to £3m for the period ended 30 September 2019 and are recognised in other operating expenses.

The difference between the operating lease commitments disclosed under IAS 17 in the Group's accounts for the year ending 31 March 2019 and the lease liabilities recognised on the date of transition can be explained as follows:

	Total £m
Operating lease commitments disclosed under IAS 17 at 31 March 2019	**116**
Effect of discounting	**(42)**
Change in contractual lease terms under IFRS 16	**95**
Finance leases under IAS 17	**39**
Other(1)	**10**
IFRS 16 lease liabilities recognised at 1 April 2019	**218**

(1) Includes other items such as assets under low value and short term exemptions and revision of lease payments on transition.

Key accounting judgements and estimates

The application of IFRS 16 requires the Group to make critical judgements in determining the scope of applying IFRS 16. Management has concluded that the determination described above that the 'last mile' does not contain a lease is a critical accounting judgement.

The application of IFRS 16 requires the Group to make certain estimates that affect the amounts recognised in the consolidated income statement and balance sheet. Management has concluded the assessment of a five year lease term for its network assets to be a key accounting estimate. In reaching this conclusion management has considered historical data and it's expectation of future changes in the network landscape and the technologies used. Sensitivities of this estimate are shown below:

- An increase to 6 years would impact the balance sheet by increasing the right of use assets by £35m and increasing the lease liabilities by £34m at 30 September 2019;
- An increase to 6 years would impact the income statement by decreasing depreciation by £5m and increasing finance costs by £5m for the six months ended 30 September 2019;
- A reduction to 4 years would impact the balance sheet by decreasing the right of use assets by £26m and decreasing the lease liabilities by £22m at 30 September 2019; and
- A reduction to 4 years would impact the income statement by increasing depreciation by £1m and decreasing finance costs by £5m for the six months ended 30 September 2019.

Summary of financial impact on condensed consolidated financial statements

The following tables summarise the financial impacts of adopting IFRS 16 on the Group's consolidated income statement for the six months ended 30 September 2019 and on the Group's consolidated balance sheet at the date of application (1 April 2019):

Consolidated income statement and other comprehensive income

	Headline Six months ended 30 September 2019 Unaudited			**Statutory Six months ended 30 September 2019 Unaudited**		
	Pre-IFRS 16 £m	**IFRS 16 adjustments £m**	**As reported £m**	**Pre-IFRS 16 £m**	**IFRS 16 adjustments £m**	**As reported £m**
Revenue	**786**	–	**786**	**792**	–	**792**
Cost of sales	**(384)**	–	**(384)**	**(386)**	–	**(386)**
Gross profit	**402**	–	**402**	**406**	–	**406**
Operating expenses	**(287)**	**25**	**(262)**	**(301)**	**25**	**(276)**
EBITDA	**115**	**25**	**140**	**105**	**25**	**130**
Depreciation and amortisation	**(68)**	**(24)**	**(92)**	**(72)**	**(24)**	**(96)**
Share of results of associates and joint ventures	**(5)**	–	**(5)**	**(5)**	–	**(5)**
Operating profit	**42**	**1**	**43**	**28**	**1**	**29**
Net finance costs	**(24)**	**(4)**	**(28)**	**(24)**	**(4)**	**(28)**
Profit before taxation	**18**	**(3)**	**15**	**4**	**(3)**	**1**
Taxation	**(3)**	–	**(3)**	**–**	**–**	**–**
Profit for the period attributable to the owners of the Company	**15**	**(3)**	**12**	**4**	**(3)**	**1**
Total comprehensive income			**12**			**1**

During the period ended 30 September 2019, the following charges arising from lease arrangements were recognised in the consolidated income statement:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Depreciation	**31**	–
Finance costs	**5**	–
Operating expenses - lease expenses under the low value exemption	**3**	–

Consolidated balance sheet

	As previously reported at 31 March 2019 £m	IFRS 16 adjustments £m	As restated at 1 April 2019 £m
Non-current assets			
Goodwill	495	**–**	**495**
Other intangible assets	235	**–**	**235**
Property, plant and equipment	199	**150**	**349**
Investment in joint venture	2	**–**	**2**
Trade and other receivables	2	**3**	**5**
Contract costs	308	**–**	**308**
Deferred tax assets	118	**1**	**119**
	1,359	**154**	**1,513**
Current assets			
Inventories	34	**–**	**34**
Trade and other receivables	160	**–**	**160**
Contract assets	39	**–**	**39**
Cash and cash equivalents	67	**–**	**67**
	300	**–**	**300**
Assets classified as held for sale	47	**–**	**47**
Total assets	1,706	**154**	**1,860**
Current liabilities			
Trade and other payables	(491)	**6**	**(485)**
Contract liabilities	(20)	**–**	**(20)**
Borrowings	(10)	**10**	**–**
Lease liabilities	–	**(57)**	**(57)**
Provisions	(35)	**2**	**(33)**
	(556)	**(39)**	**(595)**
Liabilities classified as held for sale	(7)	**–**	**(7)**
Non-current liabilities			
Trade and other payables	(5)	**–**	**(5)**
Borrowings	(838)	**29**	**(809)**
Lease liabilities	–	**(161)**	**(161)**
Provisions	(12)	**7**	**(5)**
	(855)	**(125)**	**(980)**
Total liabilities	(1,418)	**(164)**	**(1,582)**
Net assets	288	**(10)**	**278**
Equity			
Share capital	1	**–**	**1**
Share premium	684	**–**	**684**
Translation reserve	(64)	**–**	**(64)**
Demerger reserve	(513)	**–**	**(513)**
Retained earnings and other reserves	180	**(10)**	**170**
Total equity	288	**(10)**	**278**

Of the total right of use assets of £150m recognised at 1 April 2019, £52m related to leases of property and £98m to leases of network equipment and computer hardware.

The Group's outstanding liability can be further analysed as follows:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Less than 1 year	**60**	–
2 to 5 years	**102**	–
Greater than 5 years	**49**	–
	211	–

3. Segmental reporting

IFRS 8 'Operating Segments' requires the segmental information presented in the financial statements to be that used by the Chief Operating Decision Maker (CODM) to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board as its CODM. The Board considers the results of the business as a whole when assessing the performance of the business and making decisions about the allocation of resources. Accordingly, the Group has one reportable operating segment with all trading operations based in the United Kingdom.

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Statutory revenue	**792**	822
Less MVNO revenue	**(6)**	(14)
Headline revenue (1)	**786**	808
Headline EBITDA (1)	**140**	101
Depreciation of property, plant and equipment	**(58)**	(35)
Amortisation of operating intangibles	**(34)**	(32)
Amortisation of acquisition intangibles	**(4)**	(4)
Share of results of joint ventures	**(5)**	(5)
Non-headline items – gross profit (1)	**4**	6
Non-headline items – operating expenses (1)	**(14)**	(12)
Statutory operating profit (1)	**29**	19

Total statutory revenue can be disaggregated as below:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Equipment	**40**	28
Services	**752**	794
	792	822

The Group's headline revenue (1) is split by On-net, Off-net and Corporate products as this information is provided to the Group's CODM.

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
On-net	**627**	629
Corporate	**154**	172
Off-net	**5**	7
Headline revenue (1)	**786**	808
Less Carrier	**(17)**	(30)
Less Off-net	**(5)**	(7)
Headline revenue (excluding Carrier and Off-net) (1)	**764**	771

The Group has no material overseas operations; as a result, a split of revenue and total assets by geographical location has not been disclosed.

Corporate revenue is further analysed as:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Carrier	**17**	30
Data	**90**	86
Voice	**47**	56
Corporate revenue	**154**	172

[(1)] see note 7 for reconciliation of statutory information to headline information.

4. Net finance costs

Net finance costs are analysed as follows:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Interest on bank loans and overdrafts	**20**	20
Finance charge arising from leases under IFRS 16	**5**	–
Facility fees and similar charges	**3**	3
	28	23

5. Tax

The Headline tax charge for the year was £3m implying an effective Headline rate of 20% (2018: 17%) against a statutory rate of 19%.

6. Dividends

The following dividends were paid by the Group to its shareholders:

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Ordinary dividends		
Final dividend for the year ended 31 March 2018 of 1.50p per ordinary share	**-**	17
Final dividend for the year ended 31 March 2019 of 1.50p per ordinary share	**17**	-
Total ordinary dividends	**17**	17

The proposed interim dividend of 1.00p per ordinary share was approved by the Board on 15 November 2019 and has not been included as a liability as at 30 September 2019.

The Group employee share option trust (ESOT) has waived its rights to receive dividends in the current and prior year.

7. Reconciliation of statutory information to headline information

Accounting policy – non-headline items

Headline information is provided because the Directors consider that it provides assistance in understanding the Group's underlying performance. The policy in relation to non-headline items has been consistent and consistently applied in the preparation of these unaudited condensed consolidated interim financial statements as in the preparation of the financial statements for the year ended 31 March 2019 and these unaudited condensed consolidated interim financial statements for period ending 30 September 2019 with the exception of pre-IFRS 16 measures which are defined and reconciled to statutory measures in note 2.

The following table includes details of non-headline items and reconciles statutory information to headline information:

Period ended 30 September 2019	**Revenue £m**	**Gross profit £m**	**EBITDA £m**	**Operating profit £m**	**Profit before taxation £m**	**Taxation £m**	**Profit for the period £m**
Statutory results	**792**	**406**	**130**	**29**	**1**	–	**1**
MVNO operating profit (a)	**(6)**	**(4)**	**(2)**	**(2)**	**(2)**	–	**(2)**
Network transformation (b)	–	–	**5**	**5**	**5**	**(1)**	**4**
OneTeam operating model (c)	–	–	**7**	**7**	**7**	**(2)**	**5**
Amortisation of acquisition intangibles (d)	–	–	–	**4**	**4**	–	**4**
Headline results	**786**	**402**	**140**	**43**	**15**	**(3)**	**12**

Period ended 30 September 2018	Revenue £m	Gross profit £m	EBITDA £m	Operating profit £m	(Loss)/profit before taxation £m	Taxation £m	(Loss)/profit for the period £m
Statutory results	822	431	95	19	(4)	1	(3)
MVNO operating profit (a)	(14)	(6)	(1)	(1)	(1)	–	(1)
Network transformation (b)	–	–	7	7	7	(2)	5
Amortisation of acquisition intangibles (d)	–	–	–	4	4	–	4
Headline results	808	425	101	29	6	(1)	5

During the period ended 30 September 2019, cash exceptional items were £19m (2018: £20m).

The above table shows how all APMs are reconciled to statutory performance measures with the exception of headline earnings per share (note 8).

(a) MVNO operating profit
Following the Group's announcement in May 2017 to reassess the Group's mobile strategy, the Group is now progressing with its alternative mobile distribution strategy. Operating profits of £2m (2018: profit of £1m) associated with the MVNO strategy have been generated, given this one-off strategic decision, management consider these profits are non-headline items though they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations. The Group continues to transition from a wholesale agreement with Vodafone to a mobile distribution agreement with Telefonica. The wholesale agreement with Vodafone has been extended to support the smooth transition of remaining customers. The MVNO trading activity will continue to diminish with contractual commitments expiring in 2021.

A taxation credit of £nil has been recognised on these costs (2018: £nil).

(b) Network transformation
During the period ended 30 September 2019, the Group continued its significant multi-year transformation programme which will fundamentally restructure the Group's network, IT infrastructure and technology organisation. The change the Group is undertaking will ensure it is fit for the future and underpins the wider Group strategy in providing an outstanding service to our customers as a value provider in the industry. This is a discrete project that is expected to run until 2021.

This programme has resulted in £5m (2018: £7m) of costs including project management, consultancy, dual running costs and decommissioning costs.

A total taxation credit of £1m has been recognised on these costs in the period ended 30 September 2019 (2018: £2m).

(c) OneTeam operating model
Costs of £7m (2018: £nil) have been incurred as a result of simplifying the Group's organisational structure and relocating roles to one primary location at the Soapworks in Salford. These costs have been determined to be adjusting items in accordance with the Group's accounting policy as they represent a material business restructuring programme.

The costs include redundancy payments, dual-running costs, recruitment costs, retention payments and other consultancy costs. The Group expects the finalisation of this fundamental reorganisation within 2020.

A taxation credit of £2m has been recognised on these costs in the period ended 30 September 2019 (2018: £nil).

(d) Amortisation of acquisition intangibles
An amortisation charge in respect of acquisition intangibles of £4m was incurred during the period (2018: £4m). Management consider amortisation of acquisitions of intangibles to be a non-headline item due to it being inherently linked to historic acquisitions of businesses in accordance with the Group's non-headline accounting policy.

8. Earnings/(loss) per ordinary share

Earnings/(loss) per ordinary share are shown on a Headline and Statutory basis to assist in the understanding of the performance of the Group.

	Six months ended 30 September 2019 Unaudited £m	Six months ended 30 September 2018 Unaudited £m
Headline earnings (note 7)	**12**	5
Statutory profit/(loss)	**1**	(3)
Weighted average number of shares (millions)		
Shares in issue	**1,146**	1,146
Less weighted average holdings by Group ESOT	**(1)**	(3)
For basic EPS	**1,145**	1,143
Dilutive effect of share options	**5**	13
For diluted EPS	**1,150**	1,156

	Six months ended 30 September 2019 Unaudited Pence	Six months ended 30 September 2018 Unaudited Pence
Basic earnings/(loss) per ordinary share		
Headline	**1.0**	0.4
Statutory	**0.1**	(0.3)

	Six months ended 30 September 2019 Unaudited Pence	Six months ended 30 September 2018 Unaudited Pence
Diluted earnings/(loss) per ordinary share		
Headline	**1.0**	0.4
Statutory	**0.1**	(0.3)

9. Property, plant and equipment

During the period, the Group had additions of £34m, of which £21m were right of use assets and disposals of £1m.

See note 2 for further information regarding the initial application of IFRS 16. Right of use assets are presented within property, plant and equipment.

See note 2 for details of property, plant and equipment purchases through leases. See note 14 for commitments in relation to property, plant and equipment.

10. Borrowings

The Group's committed debt facilities total £1,115m (March 2019: £1,115m), which expire between 2021 and 2022. The Group's uncommitted debt facilities total £70m (March 2019: £90m).

On 25 September 2019, the Group signed an extension to the receivables purchasing agreement of £80m of which £75m is committed and £5m uncommitted (March 2019: £100m, £75m committed and £25m uncommitted). The agreement has a maturity of September 2021 and the uncommitted element of the agreement has been reduced from £25m to £5m.

The financial covenants included in each bank facility restrict the ratio of net debt to EBITDA and require minimum levels of interest cover. The amounts used in the covenant calculations are pre-IFRS 16 (note 2) and adjustments are made for receivables purchasing agreement, non-Headline items (note 7) and other adjusting items which are deemed exceptional under the agreements. The Group was in compliance with its covenants throughout the current and prior periods.

11. Assets and liabilities held for sale

The Group is continuing to progress with its planned sale of FibreNation, which provides wholesale full fibre, as required to achieve the Fibre-to-the-Premise (FTTP) network roll out speed and ultimate scale required. The sales process of Group assets and liabilities associated with FTTP operations is ongoing and the sale is expected to be completed by 31 March 2020.

The major classes of assets and liabilities classified as held for sale are as follows:

	30 September 2019 Unaudited £m	30 September 2018 Unaudited (restated) £m
Assets classified as held for sale		
Goodwill	**2**	2
Investment in joint ventures and associates (note 12)	**2**	–
Other non-current assets	**41**	23
Current assets	**13**	15
Total assets classified as held for sale	**58**	40
Liabilities associated with assets classified as held for sale		
Current payables	**(7)**	(6)
Total liabilities associated with assets classified as held for sale	**(7)**	(6)

12. Acquisition of associate

On 2 April 2019, the Group acquired 20% of the issued share capital of the company Makehappen Group Limited and this investment forms part of the assets classified as held for sale as described in note 11.

13. Financial instruments fair value disclosures

The financial instruments included on the Group balance sheet are measured at fair value or amortised cost. The Directors consider that the carrying value amounts of financial assets and liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

The measurement of this fair value can in some cases be subjective and can depend on the inputs used in the calculations. The different valuation methods are called ‘hierarchies’ and are described below:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3: Fair values measured using inputs for the asset or liability that are not based on observable market data.

The Group had no financial instruments in the current or prior periods with fair values that are determined by reference to significant unobservable inputs (level 3 in the fair value hierarchy), nor have there been any transfers of assets or liabilities between levels of fair value hierarchy. There are no non-recurring fair value measurements.

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments [1], are as follows:

	30 September 2019 Unaudited £m	30 September 2018 Unaudited (restated) £m	31 March 2019 Audited £m
Financial assets (level 1) [1]			
Cash and cash equivalents	**12**	37	67
Contract assets	**43**	42	39
Trade and other receivables [2]	**148**	259	160
Non-current investments and investment in joint venture	**2**	5	2
Non-current trade and other receivables	**4**	2	2
Non-current contract assets	**348**	238	308
Financial assets (level 2) [1]			
Derivative financial instrument	–	–	–
Financial liabilities (level 1) [1]			
Contract liabilities	**(23)**	(17)	(20)
Trade and other payables	**(426)**	(519)	(491)
Lease liabilities	**(60)**	–	–
Current borrowings	**(5)**	(85)	(10)
Non-current trade and other payables	–	(6)	(5)
Non-current lease liabilities	**(151)**	–	–
Non-current borrowings	**(837)**	(752)	(838)
Financial liabilities (level 2) [1]			
Derivative financial instruments (level 2)	–	–	–

(1) The Group has no financial instruments designated as fair value through the profit and loss (FVTPL).
(2) Accrued and deferred income has been included within the other receivables so as to give completeness over the Group's future cash inflows.

Fair value measurement at Level 2 gives consideration to interest rates, yield curves and foreign exchange rates at commonly quoted intervals for relevant currencies. The Group has also assessed the credit risk within its financial instruments.

14. Commitments

The Group has in the normal course of business entered into various multi-year supply and working capital agreements for core network, IT and customer equipment. As at 30 September 2019, expenditure contracted but not provided for in these financial statements amounted to £167m (September 2018: £170m, March 2019: £134m). Of this amount, £99m (September 2018: £91m, March 2019: £82m) related to supply for core network, IT and customer equipment and £68m (September 2018: £79m, March 2019: £52m) related to capital commitments.

See note 15 for details of commitments made in relation to related party transactions.

15. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the period £4m was loaned to the joint venture YouView.

A Loan Agreement in respect of a Working Capital Facility has been signed with MakeHappen Group Limited. The parties have agreed to working capital support of up to £17m. As of the balance sheet date, the current drawdown on the facility is £3m.

In the year ended 31 March 2019, the freehold interest of a property owned by a third party and which is leased to TalkTalk was acquired by a company of which the Executive Chairman is a controlling owner. There were no new transactions between TalkTalk and that company and the contractual terms of the lease with TalkTalk remain unchanged.

INDEPENDENT REVIEW REPORT TO TALKTALK TELECOM GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 15 We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
15 November 2019